

Arizona Health Care Cost Containment System

Acute Care

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DESCRIPTION	FY 2003	FY 2004	FY 2005	
	ACTUAL	ESTIMATE	OSPB	JLBC
OPERATING BUDGET				
Traditional Medicaid Population				
Capitation	1,251,050,500	1,422,762,600		1,594,532,500
Fee-For-Service	302,183,000	358,836,300		379,255,700
Medicare Premiums	37,789,000	38,883,400		49,546,800
Breast and Cervical Cancer	1,017,300	2,646,900		1,311,500
Ticket to Work	373,500	2,903,200		3,927,800
Proposition 204 Services				
Proposition 204 - Capitation	604,011,100	781,247,100		988,034,500
Proposition 204 - Fee-For-Service	90,550,800	124,899,100		140,300,000
Proposition 204 - Medicare Premiums	9,470,900	12,724,300		13,133,700
Proposition 204 - County Hold Harmless	4,825,600	4,825,600		4,825,600
KidsCare Services				
KidsCare - Children	57,957,000	66,438,300		69,291,700
KidsCare - Parents	13,744,900	38,196,700		0
Payments to Hospitals				
Disproportionate Share Payments	157,048,400	136,866,800		141,797,400
Graduate Medical Education	19,818,000	20,476,900		21,147,500
Critical Access Hospitals	949,200	1,700,000		1,700,000
Trauma Centers	0	5,000,000		5,000,000
PROGRAM TOTAL	2,550,789,200	3,018,407,200		3,413,804,700

FUND SOURCES

General Fund	472,451,800	626,767,600		766,936,100
<u>Other Appropriated Funds</u>				
Budget Neutrality Compliance Fund	23,319,900	0		0
Children's Health Insurance Program Fund	71,701,900	80,652,600		53,401,000
Emergency Health Services Account	12,320,000	26,222,800		25,829,500
Medically Needy Account	75,774,200	79,987,000		78,532,600
SUBTOTAL - Other Appropriated Funds	183,116,000	186,862,400		157,763,100
SUBTOTAL - Appropriated Funds	655,567,800	813,630,000		924,699,200
<u>Expenditure Authority Funds</u>				
County Funds	73,189,500	73,189,500		73,189,500
Federal Title XIX Funds	1,641,650,300	1,921,499,900		2,317,984,900
Federal Title XXI Funds	90,576,900	109,778,300		0
Proposition 204 Protection Account	25,877,500	55,067,800		54,241,800
Third Party Collections	1,128,700	194,700		194,700
Tobacco Settlement Fund	62,798,500	45,047,000		43,494,600
SUBTOTAL - Expenditure Authority Funds	1,895,221,400	2,204,777,200		2,489,105,500
SUBTOTAL - Appropriated/Expenditure Authority Funds	2,550,789,200	3,018,407,200		3,413,808,700
Other Non-Appropriated Funds	15,504,600	19,745,800		18,820,000
Federal Funds	60,712,100	82,134,800		91,471,400
TOTAL - ALL SOURCES	2,627,005,900	3,120,287,800		3,524,096,100

CHANGE IN FUNDING SUMMARY

FY 2004 to FY 2005 JLBC

	\$ Change	% Change
General Fund	140,168,500	22.4%
Other Appropriated Funds	(29,099,300)	(15.6%)
Expenditure Authority Funds	284,328,300	12.9%
Total Appropriated/Expenditure Authority Funds	395,397,500	13.1%
Non Appropriated Funds	8,410,800	8.3%
Total - All Sources	403,808,300	12.9%

COST CENTER DESCRIPTION — The AHCCCS Acute Care program is the medical services component of Arizona's Medicaid Demonstration Project. The program is based on prepaid monthly capitation payments to contracted providers for the full range of authorized medical services. The program follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate and are responsible for managing patient utilization and cost through a system of prior authorization and utilization review, coordinated by a primary care physician or practitioner. This program also includes funding for the Proposition 204 AHCCCS expansion, approved by voters in November 2000 and serving adults up to 100% of the Federal Poverty Level (FPL), as well as the KidsCare program, which serves children up to 200% of FPL.

PERFORMANCE MEASURES	FY 2003	FY 2003	FY 2004	FY 2005
	Appropriation	Actual	Appropriation	Recommend.
• % of 2-year-old children enrolled in AHCCCS who have received age appropriate immunizations	83	NA	83	83
• % of well child visits in the first 15 months of life (EPSDT)	75	61.2	75	70
• % of children's access to primary care provider	83	73.8	83	80
• % of women receiving annual cervical screening	46	51.2	46	53
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	4	3.5	4	3.5

Comment: The agency did not submit information for any measure labeled as "NA."

The Acute Care cost center contains funding for services provided AHCCCS members eligible for either the Title XX or Title XXI programs. The Title XIX program includes the Traditional Medicaid population and the Proposition 204 expansion population. The Title XXI program represents the KidsCare program. *Chart 1* shows the income levels defining eligibility in these 3 distinct populations and *Table 1* shows the forecasted populations for these groups.

AHCCCS Title XIX population prior to the passage of Proposition 204, which expanded Title XIX eligibility up to 100% of the Federal Poverty Level (FPL). The Proposition 204 program also includes the "spend-down" population, which was previously included in the state-only Medically Needy/Medically Indigent (MN/MI) program. Finally, the KidsCare program, which receives Federal Title XXI funding, provides coverage for children (and parents in FY 2004) up to 200% FPL who are not covered by the regular Title XIX program.

The largest of the 3 populations is the Traditional Medicaid population. This population represents the

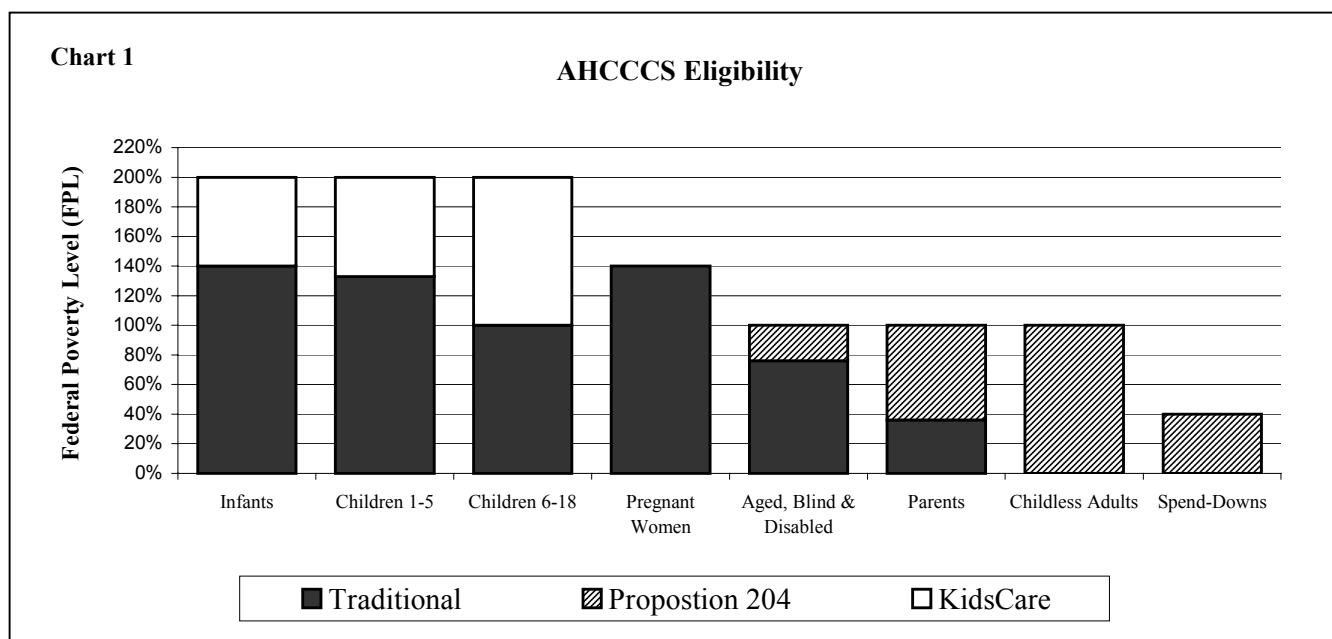


Table 1**JLBC Forecasted Member Months**

Population	June 2004	June 2005	% Change
Title XIX:			
Traditional Medicaid	583,231	601,684	3.2%
Proposition 204	183,101	197,805	8.0%
Subtotal – Title XIX	766,332	799,489	4.3%
Title XXI:			
KidsCare (excl. parents)	49,828	52,901	6.2%
Total Acute Care	816,160	852,390	4.4%

The above figures represent point-in-time estimates, while figures in Tables 2 and 3 display estimated averages for FY 2005. The figures above do not include the Ticket to Work and Breast and Cervical Cancer populations

RECOMMENDED CHANGES FROM FY 2004**Title XIX Caseload and Capitation Rate Growth**

The JLBC recommends caseload and capitation rate growth for the Traditional Medicaid and Proposition 204 populations in the Acute Care cost center. The caseload growth rates vary by program, though capitation rate inflation is assumed to be 6% across all capitated programs. In total, the JLBC recommendation includes \$425,139,600 in new Title XIX funding for caseload and capitation rate growth. Of this amount, \$128,276,700 is from the General Fund and \$296,862,900 is in Federal Expenditure Authority.

At the time of this writing, the Traditional Medicaid population has begun to experience enrollment declines and the Proposition 204 population has remained relatively stable during the past several months. If this trend continues, caseload forecasts included in this section may over-estimate actual enrollment in FY 2005. At the same time, average capitation rate growth may exceed the FY 2005 JLBC and AHCCCS estimates of 6%. Given fixed costs and the decreased ability to spread risk over a smaller population, the slowing or declining caseloads may place upward pressure on the capitation rates. Due to these uncertainties, the AHCCCS caseloads in FY 2005 may be below the estimates contained in this recommendation and the actual capitation rate increase could be larger than the current estimate, offsetting any savings from these lower caseloads.

Decreased Tobacco Tax Revenue

The JLBC recommends \$153,603,900 from various accounts of the Tobacco Products Tax Fund and the Tobacco Tax and Healthcare Fund for AHCCCS program costs in FY 2005. This amount represents a decrease of \$(2,673,700) below FY 2004, due to an expected decline in the overall Tobacco Tax revenue. Historically, Arizona Tobacco Tax collections decline by approximately 1-2% each year, absent any tax law changes. The JLBC forecast for Tobacco Tax collections assumes a 1.5% decline from FY 2004 to FY 2005. As a result, General Fund monies

are recommended to offset the loss in funding from the following accounts:

- **Medically Needy Account** - This account receives monies statutorily determined percentages from the Tobacco Tax and Healthcare Fund and the Tobacco Products Tax Fund (as established by Proposition 303).
- **Proposition 204 Protection Account** - This account receives a statutorily defined percentage of the revenue from the Tobacco Products Tax Fund. Proposition 303 requires that monies from this account be used for state match funding in the Proposition 204 program.
- **Emergency Health Services Account** - This account receives a statutorily defined percentage of the revenue from the Tobacco Products Tax Fund. This account is subject to legislative appropriation for, among other purposes, the costs of primary care.

See the Summary of Funds in the AHCCCS Summary for more information on the Tobacco Tax revenue forecast.

Decreased Tobacco Settlement Revenue

The JLBC recommends \$43,494,600 from the Tobacco Settlement Fund for state match expenditures in the Proposition 204 program. This represents a decrease of \$1,552,400 below the FY 2004 appropriation due to less expected revenue from the Master Settlement Agreement. (This is the settlement agreement entered into in 1998 by the several cigarette manufacturers and the states, territories, and the District of Columbia that brought suit. In exchange for settlement payments, the suing parties agreed to drop other state lawsuits against the tobacco companies for health care costs.) The JLBC forecast for Tobacco Settlement monies received in FY 2005 is based on the national estimate made by the Council of State Governments. The monies Arizona receives are then directed to Proposition 204 expenditures, including Behavioral Health expenditures, which are found in the Department of Health Services section. *See the Summary of Funds in the AHCCCS Summary for more information on Tobacco Settlement expenditures.*

Regular Federal Match Rate Change

The Federal Matching Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Title XIX Medicaid program. This rate is set on a state by state basis, and is revised each year. In FY 2005 the FMAP for Arizona is increasing by 0.19%, effective October 1, 2004. This increase in the rate will produce small savings amounts in federally matched programs, and is embedded in the growth numbers presented below. This issue is separate from the enhanced FMAP granted in FY 2004, which is discussed in the AHCCCS Summary section.

Special Line Items

Traditional Medicaid Population

The following line items fund these populations (shaded black in chart 1):

- Pregnant women and children less than 1, up to 140% of the Federal Poverty Level (FPL)
- Children aged 1-5, up to 133% FPL
- Children aged 6-18, up to 100% FPL
- Aged, blind, and disabled adults, up to 75% FPL
- Parents, up to 38% FPL
- These line items exclude the Proposition 204 and KidsCare populations

Capitation

The JLBC Recommends \$1,594,532,500 for Capitation expenditures in FY 2005 for the Traditional population. This amount includes \$388,344,700 from the General Fund, \$73,189,500 in County Funds, \$57,991,500 from the Medically Needy Account, \$194,700 in Third Party Collections, and \$1,074,812,100 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload and Capitation Rate	GF	\$54,139,300
Growth	EA	117,630,600

The JLBC recommends increases of \$54,139,300 from the General Fund and \$117,630,600 in Federal Expenditure Authority for increased Capitation expenditures due to AHCCCS caseload growth and capitation rate increases.

The JLBC estimates that capitation enrollment will increase by approximately 18,450 member years, or 3.2%, from June 2004 to June 2005. This will result in approximately 593,739 member years being served in FY 2005. Additionally, the JLBC recommendation assumes capitation rate increases of 6% above FY 2004.

The Capitation line includes monthly payments made to AHCCCS health plans for the cost of care provided to enrolled members and supplemental “reinsurance” payments made to health plans in catastrophic cases. Contracts are awarded to health plans for a multi-year period upon the completion of a competitive bidding process in which the health plans respond to a Request for Proposals from AHCCCS. Health plans bid by AHCCCS rate code, meaning that different rates are paid for different groups. *Table 2* details the assumed capitation rates and projected enrollment, by AHCCCS rate code, for FY 2005.

In general, capitation rates are based on an actuarial assessment, by each of the AHCCCS rate codes, of the medical services utilization and costs incurred per AHCCCS member per month.

Table 2

Federally-Eligible Rate Codes	FY 2005 Member Years ^{1/}	FY 2005 Capitation Rates ^{2/}
TANF < 1	50,173	385.51
TANF 1-13	288,064	95.58
TANF 14-44 Female	112,082	170.96
TANF 14-44 Male	47,111	117.82
TANF 45+	9,159	343.39
SSI w/ Medicare	29,098	254.04
SSI w/o Medicare	51,590	513.98
Family Planning	<u>6,462</u>	14.88
Total	593,739	
Deliveries ^{3/}	27,608	5,900.62

^{1/} Member years are calculated as projected regular member months divided by 12 and do not necessarily indicate actual number of clients enrolled.

^{2/} Capitation rates are set on a Contract Year (CY) basis, which is from October 1 through September 30. For FY 2005, the rates reflect 1 quarter at the CY 2004 level and 3 quarters at the CY 2005 level.

^{3/} This is the projection of actual birth deliveries to be made by enrollees in AHCCCS health plans.

Decreased Tobacco Tax Revenue	GF	1,454,400
	OF	(1,454,400)

The JLBC recommends an increase of \$1,454,400 from the General Fund to offset decreased funding available from the Medically Needy Account. *See Decreased Tobacco Tax Revenue policy issue for more information.*

Fee-for-Service

The JLBC recommends \$379,255,700 for Fee-For-Service expenditures in FY 2005 for the Traditional population. This amount includes \$74,466,200 from the General Fund and \$304,789,500 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload Growth and Inflation	GF	2,590,800
	EA	17,828,600

The JLBC recommends an increase of \$2,590,800 from the General Fund and \$17,828,600 in Federal Expenditure Authority for growth in the Fee-For-Service program. This additional funding would provide for a 5.7% increase in the Fee-For-Service program above the FY 2004 appropriation.

The Fee-For-Service line item is for payments made by AHCCCS directly to health care providers on behalf of members not covered under the Capitated portion of the AHCCCS program. There are 3 primary components of the Fee-for-Service program: 1) temporary Fee-for-Service coverage for those who later enroll in a capitated plan; 2) services provided to Native Americans living on-reservation; and, 3) emergency services provided for undocumented immigrants. The federal government shares in the cost of care for categorically linked undocumented immigrants. “Categorically Linked” individuals are those who would be eligible for the

Traditional Medicaid program (as opposed to Proposition 204 or KidsCare) if not for their citizenship status.

Medicare Premiums

The JLBC recommends \$49,546,800 for Medicare Premiums expenditures in FY 2005 for the Traditional population. This amount includes \$13,308,000 from the General Fund and \$36,238,800 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload Growth and Inflation	GF	573,700
	EA	10,089,700

The JLBC recommends an increase of \$573,700 from the General Fund and \$10,089,700 in Federal Expenditure Authority for growth in the Medicare Premiums line item.

This line item provides funding for the purchase of Medicare Part B (supplemental medical insurance) on behalf of those eligible for Medicaid and Part A (hospital insurance) coverage. Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, the line item includes the costs of payment of Part A premium costs for certain disabled workers. The line item also includes funding for low-income Qualified Medicare Beneficiaries. Finally, the line item includes funding for the 100% federally funded Medicare Part B buy-in program.

Breast and Cervical Cancer

The JLBC recommends \$1,311,500 for Breast and Cervical Cancer in FY 2005. This amount includes \$983,900 from the General Fund and \$327,600 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Reimbursement Change	GF	(308,500)
	EA	(1,026,900)

The JLBC recommends a decrease of \$(308,500) from the General Fund and \$(1,026,900) in Federal Expenditure Authority to account for a change in the AHCCCS reimbursement methodology for Cervical Cancer treatment program. This change does not affect the services provided to women receiving services under this program, nor any eligibility standards for this program.

The Breast and Cervical Cancer program provides treatment to women who have been diagnosed with breast and/or cervical cancer through the Well-Woman Healthcheck Program administered by the Department of Health Services (DHS). This program serves women with incomes between 100-250% FPL, and is estimated to serve approximately 50-80 people in FY 2005.

Ticket to Work

The JLBC Recommends \$3,927,800 for Ticket to Work in FY 2005. This amount includes \$1,280,100 from the General Fund and \$2,647,700 in Federal Expenditure

Authority. These amounts would fund the following adjustments:

Caseload and Capitation Rate	GF	305,500
Growth	EA	719,100

The JLBC recommends an increase of \$305,500 from the General Fund and \$719,100 in Federal Expenditure Authority for growth in the Ticket to Work line item. Enrollment in this program is estimated to increase by approximately 184 members, or approximately 32%, from June 2004 to June 2005. The Ticket to Work program began in January 2003 and is still experiencing high growth.

The Ticket to Work program is designed to improve access to employment training and placement for individuals with disabilities who want to work. This program allows individuals receiving Social Security Income (SSI) to work without losing their AHCCCS health coverage. This program serves individuals who meet SSI eligibility criteria, who are aged 16-64, and who have earned income below 250% FPL.

Proposition 204 Services

Proposition 204 expanded the regular AHCCCS program to 100% of the Federal Poverty Level (FPL). The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL. Services provided to this population mirror the services provided in the regular AHCCCS program.

Proposition 204 - Capitation

The JLBC recommends \$988,034,500 for Proposition 204 Capitation expenditures in FY 2005 for the Proposition 204 population. This amount includes \$182,934,700 from the General Fund, \$43,494,600 from the Tobacco Settlement Fund, \$20,541,100 from the Medically Needy Account, \$54,241,800 from the Proposition 204 Protection Account, \$20,829,500 from the Emergency Health Services Account and \$665,992,800 in Federal Expenditure Authority. Proposition 204 requires that any tobacco settlement monies received by the state as part of the Master Settlement Agreement be expended on this expansion population. Proposition 303, passed in the 2002 General Election, further requires that that monies deposited into the Proposition 204 Protection Account to be spent on this expansion population as well. These amounts would fund the following adjustments:

Caseload and Capitation Rate	GF	66,235,900
Growth	EA	140,551,500

The JLBC recommends increases of \$66,235,900 from the General Fund and \$140,551,500 in Federal Expenditure Authority for increased Capitation expenditures due to AHCCCS caseload growth and capitation rate increases.

The JLBC estimates that Proposition 204 capitation enrollment will increase by approximately 14,700 member years, or 8%, from June 2004 to June 2005. This will result in approximately 191,500 member years being served in FY 2005. Additionally, the JLBC

recommendation assumes capitation rate increases of 6% above FY 2004. *Table 3* details the assumed capitation rates and projected enrollment, by AHCCCS rate code, for the Proposition 204 program in FY 2005.

Table 3		
Federally-Eligible Rate Codes	FY 2005 Member Years ^{1/}	FY 2005 Capitation Rates ^{2/}
TANF	59,138	176.22
SSI	17,295	264.24
Prop 204 Conversions ^{3/}	72,740	783.02
Prop 204 Medically Eligible ^{4/}	4,238	406.33
Prop 204 Newly Eligible ^{5/}	<u>38,142</u>	406.33
TOTAL	191,553	
Hospital "Kick" ^{6/}	5,400	9,941.86
Deliveries ^{7/}	751	5,900.62

^{1/} Member years are calculated as projected regular member months divided by 12 and do not necessarily indicate actual number of clients enrolled.

^{2/} Capitation rates are set on a Contract Year (CY) basis, which is from October 1 through September 30. For FY 2005, the rates reflect 1 quarter at the CY 2004 level and 3 quarters at the CY 2005 level. These rates represent the average rates for the population listed.

^{3/} Represents the population formerly known as the Medically Indigent who received services under the former 100% state funded MN/MI program. These enrollees are from 0 – 40% FPL.

^{4/} Represents the population formerly known as the Medically Needy portion of the old MN/MI program, also referred to as the "spend-down" population. These enrollees are from 0 – 40% FPL.

^{5/} Represents enrollees that mirror the former Medically Indigent population, except their income ranges from 40 - 100% FPL.

^{6/} This is the projection of actual hospital "kick" payments on behalf of Proposition 204 enrollees in AHCCCS health plans. These "kick" payments are made to hospitals for each Medically Eligible new member enrolled at a hospital.

^{7/} This is the projection of actual birth deliveries to be made by Proposition 204 enrollees in AHCCCS health plans.

Elimination of Enhanced Title XXI Match Rate

GF 14,000,000
EA (14,000,000)

The JLBC recommends an increase of \$14,000,000 from the General Fund and \$(14,000,000) in Federal Expenditure Authority in FY 2005 for the loss of temporary Title XXI matching monies for a portion of the Proposition 204 expansion population. The Expenditure Authority amount includes a decrease of \$(109,778,300) in Title XXI Federal Expenditure Authority, and an increase of \$95,778,300 in Title XIX Expenditure Authority.

In FY 2004, AHCCCS was able to use Title XXI monies to cover a portion of the Proposition 204 Expansion population. Title XXI typically covers the KidsCare population (see description in next section), but AHCCCS received a federal waiver to use these monies on a portion of the Proposition 204 population. Title XXI monies are received at a matching rate of approximately 3-1, compared to the approximate 2-1 rate the Title XIX monies are received at. This higher matching rate

generated General Fund savings in FY 2004. The future availability of these Title XXI monies is uncertain, therefore, these savings cannot be continued in FY 2005.

Decreased Tobacco Settlement Fund Revenue

GF 1,552,400
EA (1,552,400)

The JLBC recommends an increase of \$1,552,400 from the General Fund to offset decreased funding available from the Tobacco Settlement Fund for the Proposition 204 population.

Decreased Tobacco Tax Revenue

GF 1,219,300
OF (393,300)
EA (826,000)

The JLBC recommends an increase of \$1,219,300 from the General Fund and decreases of \$(393,300) from the Emergency Health Services Account and \$(826,000) from the Proposition 204 Protection Account due to decreased Tobacco Tax revenue. *See Decreased Tobacco Tax Revenue policy issue for more information.*

Proposition 204 – Fee-For-Service

The JLBC recommends \$140,300,000 for Proposition 204 Fee-For-Service expenditures in FY 2005 for the Proposition 204 population. This amount includes \$26,765,100 from the General Fund and \$113,534,900 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload Growth and Inflation

GF 4,635,800
EA 10,765,100

The JLBC recommends an increase of \$4,365,800 from the General Fund and \$10,765,100 in Federal Expenditure Authority for growth in the Proposition 204 Fee-For-Service program. These amounts represent a 24% increase above FY 2004.

Proposition 204 – Medicare Premiums

The JLBC recommends \$13,133,700 for Proposition 204 Medicare Premiums expenditures in FY 2005 for the Proposition 204 population. This amount includes \$4,271,400 from the General Fund and \$8,862,300 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload Growth

GF 104,200
EA 305,200

The JLBC recommends an increase of \$104,200 from the General Fund and \$305,200 in Federal Expenditure Authority for growth in the Medicare Premiums line item.

Proposition 204 – County Hold Harmless

The JLBC recommends \$4,825,600 from the General Fund for Proposition 204 County Hold Harmless payments in FY 2005. This amount is unchanged from FY 2004.

As a result of the implementation of Proposition 204, some counties experienced revenue losses. This recommendation continues prior year appropriations to hold these counties harmless. The primary recipient of the

appropriation is Pima County, who receives \$3,817,800. The remaining \$1,007,800 is allocated among Graham, Greenlee, La Paz, Santa Cruz, and Yavapai Counties. See *JLBC Recommended Footnotes for more information.*

KidsCare Services

The KidsCare Program, also referred to as the Children's Health Insurance Program, provides health coverage to children in families with incomes below 200% of the Federal Poverty Level, but above the levels required for the regular AHCCCS program. The KidsCare Program receives federal Title XXI monies at approximately a 3 to 1 match rate, which is higher than the regular Title XIX portion of AHCCCS. Beginning in October 2002, this program was also expanded to cover parents of children enrolled in KidsCare. The Federal Title XXI monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated with the General Fund match to fund the KidsCare program. *Additional funding is also provided for the administration of the KidsCare program in the AHCCCS Administration section.*

KidsCare – Children

The JLBC Recommends \$69,291,700 for KidsCare Services in FY 2005. This amount includes \$15,890,700 from the General Fund and \$53,401,000 from the Children's Health Insurance Program (CHIP) Fund. These amounts would fund the following adjustments:

Caseload and Capitation Rate	GF	663,000
Growth	OF	2,190,400

The JLBC recommends an increase of \$663,000 from the General Fund and \$2,190,400 from the CHIP Fund for caseload and capitation rate increases in FY 2005. The JLBC recommendation assumes enrollment growth of approximately 6.2% and capitation rate increases of 6% in FY 2005.

KidsCare – Parents

The JLBC recommends no funding for the KidsCare - Parents program in FY 2005. This amount would fund the following changes:

Eliminate Funding for	GF	(8,754,700)
KidsCare Parents	OF	(29,442,000)

The JLBC recommends decreases of \$(8,754,700) from the General Fund and \$(29,442,000) from the CHIP Fund to eliminate funding for the coverage of parents of children enrolled in the KidsCare program in FY 2005. Laws 2003, Chapter 265 eliminates the statutory authority for the coverage of this population effective July 1, 2004, therefore no funding is recommended for this population in FY 2005.

Payments to Hospitals

These line items represent payments made directly to hospitals, though not for specific services provided to enrolled AHCCCS members.

Disproportionate Share Payments

The JLBC recommends \$141,797,400 for Disproportionate Share Hospital (DSH) Payments in FY 2005. This amount

includes \$46,428,000 from the General Fund and \$95,369,400 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Revised Federal DSH Allotment	GF	1,617,800
	EA	3,312,800

The JLBC recommends increases of \$1,617,800 from the General Fund and \$3,312,800 in Federal Expenditure Authority to reflect higher Federal DSH dollars available in FY 2005. This additional General Fund appropriation will increase General Fund revenue by \$4,930,600.

This line item represents supplementary payments to hospitals that serve a large, or disproportionate, number of low-income patients. The federal basis for payments is either a reflection of a hospital's number of Title XIX inpatient days, or a "low income" utilization rate. States may also establish optional payment categories. Arizona has established optional groups, or "pools", that include county, state, and private hospitals. *Table 4* presents the allocation of Disproportionate Share funding.

Table 4

Disproportionate Share Allocations

	<u>FY 2004</u>	<u>FY 2005</u>
County-Operated Hospitals	\$82,244,200	\$87,174,800
Arizona State Hospital	28,474,900	28,474,900
Private Hospital	26,147,700	26,147,700
Total	\$136,866,800	\$141,797,400

Of the total County-Operated Hospital allocation, \$4,202,300 is provided directly to the counties for uncompensated care. The remainder of the allocation is recouped by the state through county Transaction Privilege Tax revenue to reimburse the state for indigent health care costs. The total Private Hospital allocation consists of 2 pools. The first allocates \$15,150,000 based on private hospitals' level of care provided to Medicaid clients and/or the level of low-income clients served. The second pool allocates \$10,997,700 among private hospitals as compensation for uncompensated care.

The allocation to the Arizona State Hospital (ASH) will also generate General Fund revenue in FY 2005. An amount corresponding to the DSH allocation will be deposited into the General Fund.

The JLBC is also recommending a FY 2004 supplemental for the DSH program, as more Federal monies are available than originally expected. This supplemental amount is not reflected in the above table, but will be allocated to the County-Operated Hospitals, and withheld as mentioned above for additional General Fund revenue in FY 2004. See *Other Issues for Legislative Consideration in this section and the AHCCCS Summary section for more information.*

Graduate Medical Education

The JLBC recommends \$21,147,500 for Graduate Medical Education (GME) expenditures in FY 2005. This amount includes \$6,883,500 from the General Fund and \$14,264,000 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Statutory Inflation Adjustment	GF	177,300
	EA	493,300

The JLBC recommends an increase of \$177,300 from the General Fund and an increase of \$493,300 in Federal Expenditure Authority for statutory inflation adjustments to the GME program. Current statutes direct that the GME appropriation amount be adjusted annually to adjust for changing hospital costs. The above recommendation includes an increase of 3.28%, above the FY 2004 appropriation, based on the Centers for Medicare and Medicaid Services (CMS) Hospital Prospective Reimbursement Market Basket, as reported by AHCCCS. The GME program reimburses hospitals that have graduate medical education programs.

Critical Access Hospitals

The JLBC recommends \$1,700,000 for Critical Access Hospitals in FY 2005. This amount includes \$554,200 from the General Fund and \$1,145,800 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Revised Federal Matching Percentage	GF	(37,700)
	EA	37,700

The JLBC recommends a decrease of \$(37,700) from the General Fund and an increase of \$37,700 in Federal Expenditure Authority in FY 2005 to reflect a technical adjustment in the FMAP. *See Federal Matching Assistance Percentage policy issue for more information.*

The Critical Access Hospital program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals.

Trauma Centers

The JLBC recommends \$5,000,000 from the Emergency Health Services Account for Trauma Centers in FY 2005. This amount is unchanged from FY 2004. This Special Line Item contains appropriations directly to the University of Arizona Trauma Center, in the amount of \$2,000,000, and a deposit into the Trauma and Emergency Services Fund of \$3,000,000.

* * *

JLBC RECOMMENDED FORMAT — Special Line Items by Program

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes

The FY 2005 Disproportionate Share Payment of \$141,797,400 is based on the federal FY 2005 authorized expenditure level of \$95,369,400. If the final federal

expenditure authorization is an amount different from the estimate, the Governor shall direct the Arizona Health Care Cost Containment System Administration, subject to the availability of monies and subject to review of the Joint Legislative Budget Committee, to proportionately adjust authorization amounts among the identified recipients of the disproportionate share hospital payment. Before the final payment, the Governor shall provide notification to the President of the Senate, the Speaker of the House of Representatives, the Chairmen of the House and Senate Appropriations Committees and the Staff Director of the Joint Legislative Budget Committee of the adjusted federal authorized expenditure level and the proposed distribution plan for these monies.

The appropriation for Disproportionate Share Payments for FY 2005 made pursuant to A.R.S. § 36-2903.01P includes \$87,174,800 for qualifying county operated hospitals, \$26,147,100 for private qualifying disproportionate share hospitals and \$28,474,900 for deposit in the Arizona State Hospital Fund.

Of the \$3,413,804,700 expenditure authority for Acute Care in FY 2005, \$766,963,100 is appropriated from the state General Fund, and \$78,532,600 is appropriated from the Tobacco Tax and Health Care Fund Medically Needy Account, \$25,829,500 IS APPROPRIATED FROM THE TOBACCO PRODUCTS TAX FUND EMERGENCY HEALTH SERVICES ACCOUNT, AND \$53,401,000 IS APPROPRIATED FROM THE CHILDREN'S HEALTH INSURANCE PROGRAM FUND. *(These funding sources were included in the in the Administration and Proposition 204 sections in FY 2004, however, these funding sources are moved to the Acute Care section in FY 2005).*

Before making fee-for-service program or rate changes that pertain to hospital, nursing facility or home and community based services rates or for any of the other fee-for-service rate categories that have increases that, in the aggregate, are 2% above and \$1,500,000 from the state General Fund greater than budgeted medical inflation in FY 2005, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review.

THE ADMINISTRATION SHALL REPORT TO THE JOINT LEGISLATIVE BUDGET COMMITTEE BY MARCH 31 OF EACH YEAR ON PRELIMINARY ACTUARIAL ESTIMATES OF THE CAPITATION RATE INCREASES FOR THE FOLLOWING FISCAL YEAR. Before implementation of any changes in capitation rates, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review. UNLESS REQUIRED FOR COMPLIANCE WITH FEDERAL LAW, BEFORE THE ADMINISTRATION IMPLEMENTS ANY CHANGES IN POLICY AFFECTING THE AMOUNT, SUFFICIENCY, DURATION, AND SCOPE OF HEALTH CARE SERVICES, AND WHO MAY

PROVIDE SERVICES, THE ADMINISTRATION SHALL PREPARE A FISCAL IMPACT ANALYSIS ON THE POTENTIAL EFFECTS OF THIS CHANGE ON THE FOLLOWING YEAR'S CAPITATION RATES. IF THE FISCAL ANALYSIS DEMONSTRATES THAT THESE CHANGES WILL RESULT IN ADDITIONAL STATE COSTS OF \$500,000 OR GREATER FOR A GIVEN FISCAL YEAR THE ADMINISTRATION SHALL SUBMIT THE POLICY CHANGES TO THE JOINT LEGISLATIVE BUDGET COMMITTEE FOR REVIEW. THE ADMINISTRATION SHALL ALSO REPORT QUARTERLY TO THE JOINT LEGISLATIVE BUDGET COMMITTEE ITEMIZING ALL POLICY CHANGES WITH FISCAL IMPACTS OF LESS THAN \$500,000 IN STATE COSTS. *(The JLBC recommends adding these provisions in order to improve the accuracy of capitation rate forecasts and to monitor more closely policy changes that have an effect on capitation rates).*

New Footnotes

Of the \$5,000,000 appropriation for Trauma Centers, \$2,000,000 shall be directed to a University Level 1 Trauma Center in Southern Arizona and \$3,000,000 shall be deposited in the Trauma and Emergency Services Fund established in A.R.S. § 36-2903.07. *(This footnote was included in the Administration section in FY 2004, however, this funding is moved to the Acute Care section in FY 2005).*

Of the \$4,825,600 appropriated for the Proposition 204 County Hold Harmless line, \$234,200 is allocated to Graham County, \$234,400 to Greenlee County, \$159,700 to La Paz County, \$3,817,800 to Pima County, \$214,800 to Santa Cruz County and \$164,700 to Yavapai County to offset a net loss in revenue due to the implementation of Proposition 204, and shall be used for indigent health care costs. *(This footnote was included in the Administration section in FY 2004, however, this funding is moved to the Acute Care section in FY 2005).*

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends:

- 1) Amending statute to eliminate emergency dental care as a covered service for adult AHCCCS members. The FY 2004 Health ORB eliminated this coverage, and the General Appropriation Act included General Fund savings of \$1,200,000. The Governor vetoed the Health ORB provision. The veto, however, did not generate the funding for the coverage of this service.
- 2) Setting the FY 2005 county Acute Care contribution at \$73,189,500, the same level as FY 2004. This amount includes \$6,500,000 from the Disproportionate Uncompensated Care (DUC) Pool.

- 3) Continuing to withhold state shared revenues based on the Disproportionate Share Hospitals Program appropriation to county-operated hospitals. For FY 2005 this withholding amount would be set at \$82,972,500.
- 4) Amending statute to correct a clerical error and clarify that statutory authority for the State Emergency Services Program is eliminated. Funding for this program was eliminated in FY 2004, and the Health ORB included provisions eliminating the statutory authority for the program. This Health ORB provision was line item vetoed by the Governor. After transmitting her veto message to the Legislature, however, the Governor communicated that this particular veto was a clerical error.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2004 Supplemental

The JLBC recommends supplemental adjustments of \$10,339,400 from the General Fund, \$(4,104,000) from the CHIP Fund, and \$24,054,600 in Federal Title XIX Funds for revised caseload estimates and capitation rate increases for the Traditional Medicaid, Proposition 204, and KidsCare populations. Effective October 1, 2003, AHCCCS capitation rates increased by approximately 13.4%, while the approved FY 2004 budget assumed rate increases of approximately 7.1%. The cost of the capitation rate increases is also partially offset by slower than expected caseload growth both the regular AHCCCS population and the Proposition 204 population. In total, cumulative caseload through November is approximately 3.6% below budgeted levels.

The JLBC also recommends supplemental adjustments of \$5,802,900 from the General Fund and \$11,921,200 in Federal Title XIX Funds for the Disproportionate Share Hospitals Program. Additional Federal Funding is available in FY 2004, and this appropriation will generate additional FY 2004 General Fund revenue of \$17,724,100.

Though the JLBC estimates a supplemental need for AHCCCS in FY 2004, there may not be a need to adjust the FY 2004 appropriation in the General Appropriation Act. AHCCCS has the ability to use unexpended FY 2003 appropriations through the administrative adjustment procedure to help offset some FY 2004 costs. The level of unexpended FY 2003 monies exceeds the estimated \$16,142,300 General Fund supplemental. If the agency chooses to use these monies, no supplemental General Fund appropriation would be necessary. The net impact to the General Fund, however, is the same regardless of the way in which this supplemental need is funded, as increased administrative adjustments in FY 2004 will have the same effect as an additional FY 2004 appropriation from the General Fund.

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SUMMARY OF FUNDS – SEE AGENCY SUMMARY
